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ANNUAL REPORT OF THE PRESIDENT

HAWAIIAN SUGAR PLANTERS' ASSOCIATION

1957

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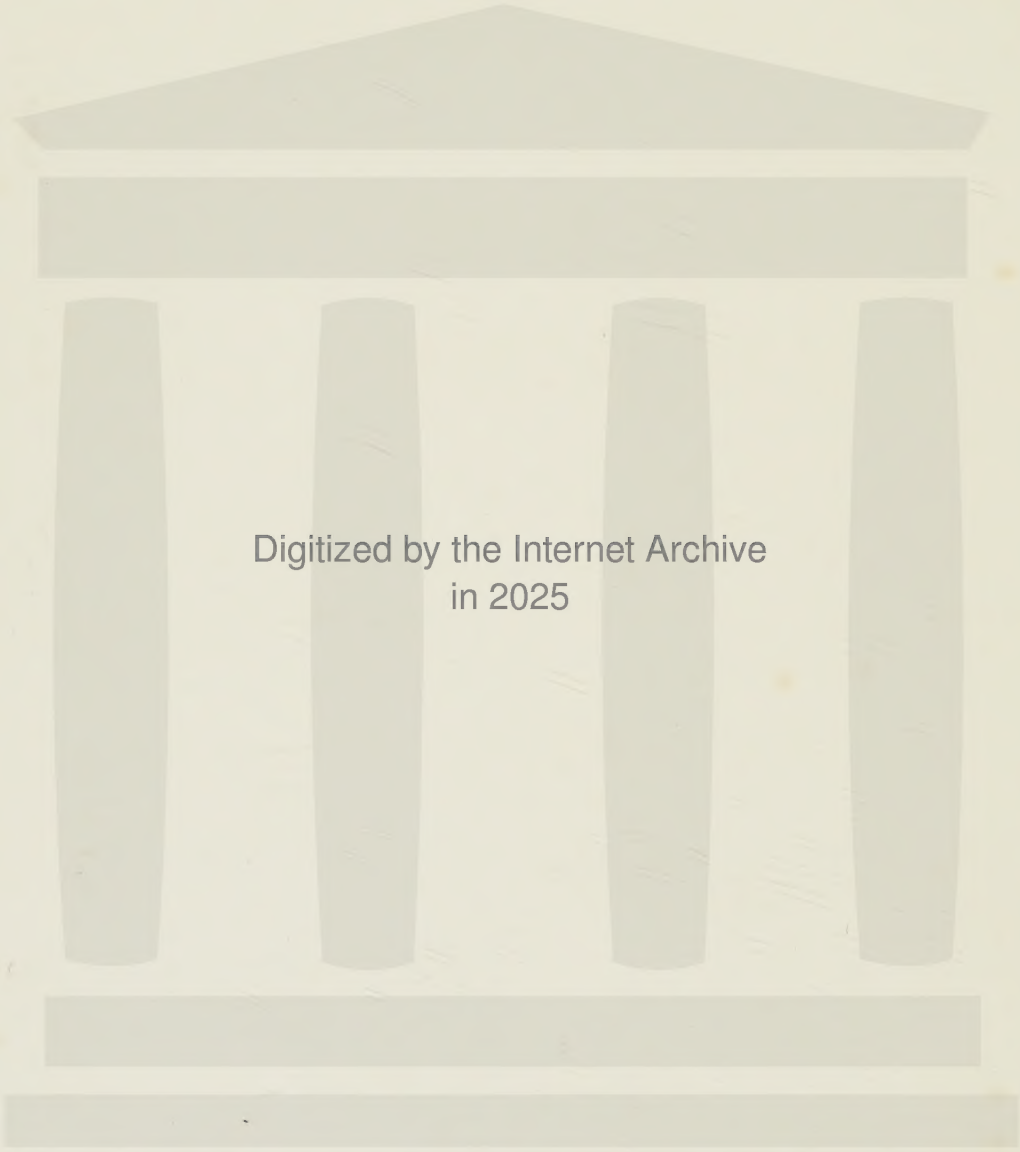
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ANNUAL REPORT OF THE PRESIDENT

PRESENTED BY **A. G. BUDGE** TO MEMBERS OF THE HAWAIIAN SUGAR PLANTERS' ASSOCIATION AT THE SEVENTY-SEVENTH ANNUAL MEETING HONOLULU, T. H., DECEMBER 2, 1957

The 10 eventful years that have passed since the war have confronted our industry with a series of perplexing problems. Meeting them on a day-to-day basis, we tend to lose sight of their magnitude or the stature of our accomplishment in staying in business on an economic basis. Labor problems, rising costs, the course of legislation in Washington, or an adverse combination of other circumstances could have put many plantations out of business in these 10 years. That they did not do so is a measure of management. It is less to record this accomplishment for our own satisfaction than for the information of those outside the industry that this report is presented.

Picture the industry as it was on New Year's Day, 1947. The physical plant was run down by a combination of war-time shortages of men and materials and the aftermath of a 79-day strike. Production had fallen 20 per cent during the war and strike costs left us short of cash. We faced an uncertain future in our relations with a militant, seasoned union leadership with which we were ill-equipped by experience or training to contend. War-time inflation had sent costs spiralling and we could only guess—too accurately, unfortunately—that there was more of the spiral to come. The legislation under which our industry operated faced a clouded future. And technological work—the basis for Hawaii's pre-war leadership among the sugar growers of the world—had lapsed. There were other major problems on every front, each calling for immediate attention.

HUMAN RELATIONS

In 10 years we have made major advances in the area of human relations. Our labor contract has emerged from the shell that was the agreement at the close of the 1946 strike to become an intricate but well-defined and workable pattern for on-the-job relationships. Our employees have gained substantial improvements in their standard of living, status and security. An industry-wide system of job evaluation assures them comparable opportunities and treatment. A pension plan helps care for the problems of retirement. Substantial reductions in the work force have been achieved through attrition and the voluntary repatriation plan which has also protected job security. The security of the union itself is strengthened by this agreement.

In the process of working out these problems our management has become more mature and seasoned and can now act with greater confidence in dealing with labor matters as they arise. Still another important factor is that we have in this agreement retained protection for management's authority and control in reasonable proportion to management's responsibility for the success of the business.

TELLING THE FACTS

In the same period our relations with the community as a whole have improved. To some degree this has come about because the burgeoning defense and tourist businesses have made sugar less conspicuous as the principal employer and biggest source of private income in Hawaii. But I think it is also due to the willingness we have displayed to tell the facts concerning our problems and purposes to everyone who will listen.

There was once a disposition in the industry to let results speak for themselves. Actions speak louder than words, but good deeds and good intentions by themselves are not enough. We know now they must be fully reported and interpreted to gain proper public understanding and acceptance. One of our greatest accomplishments since the war has been to recognize and act on the principle of the public's right to know. Nowhere has the wisdom of full, willing disclosure been more evident than in our relations with the legislature. Regardless of party, we have found a readiness to listen, to be believed, when we have presented our problems and recommended logical solutions.

FIELD AND FACTORY

What amounts to an industrial revolution has occurred in fields and factories in 10 short years. The machete has given way to the mechanical harvester; the hoe hana man to the herbicide spray. The fertilizer gang with its mule team has been replaced by the airplane with its fertilizer pellets or the fork truck, moving drums of ammonia to the side of the irrigation ditch. The narrow-gauge cane train has disappeared in favor of the diesel truck. These changes in turn have brought new problems requiring other solutions. Mechanization created soil compaction. This, in turn, led to development of the wide-tracked cane buggy for infield transportation. Mechanical harvesting, which delivered trash and rocks as well as cane to the mill, has required construction of large and expensive cleaning plants. Shortened work-weeks and higher wages have necessitated more mill capacity and automation of centrifugals. Bulk movement of raw sugar by ship has led to bulk movement from mill to port.

All these changes have in turn taxed the engineers and men of science. Advances in per-acre productivity trace directly to the experiment station's work in genetics, soil compaction and fertilization. A great part of the increased productivity is due also to the machines themselves and methods developed by industrial engineers.

MARKETING PICTURE

The cooperation that has traditionally characterized Hawaii's production of sugar extends to processing and marketing through the efforts of the California and Hawaiian Sugar Refining Corp. However, there is little cooperation beyond that point.

Intense competition for markets is the rule of the game. Hawaii's competitive position has been complicated by increased production of beets in the Western states, interruption of our ability to supply customers in times of shipping strikes and other labor trouble, and radical changes in consumer requirements and marketing practices.

Before World War II, the choice market of the 11 Western states was served 48 per cent by beets, 29 per cent by C and H, 14 per cent by the Western Sugar Refinery, and 9 per cent by Philippine and other direct consumption sugar. The supply of foreign direct consumption sugar has been considerably reduced since the war, and the Western Sugar Refinery discontinued operations in 1948. Competition for this market has become a clear-cut fight between the 10 western beet processors and C and H Hawaiian cane.

The beets now enjoy approximately 59 per cent of the western market, C and H 39 per cent, and foreign sugar approximately two per cent. The relative position of the two major sources has been influenced by interruptions in the supply of Hawaiian cane sugar due to labor trouble; the post-war introduction of a full line of beet packaged sugars supported by strong industry and individual brand advertising campaigns; and a change in consumer buying habits that has increased the amount of sugar sold in the form of manufactured products. The sale of sugar to manufacturers is primarily influenced by price, and although the trend toward greater use of industrial sugar has favored the sale of lower-priced beet sugar, C and H has planned competitive action to re-gain and retain its fair share of its primary western markets.

PACKAGE CHANGES

Competition for the household market, coupled with the advent of self-service super-chains, has made selling sugar a package and brand-identification business. Industrial users, on the other hand, are demanding deliveries in bulk, and in many cases in liquid form.

These changes, together with obsolescence, required substantial improvements, modifications and replacements at the refinery. Some $17,000,000 has been spent in this fashion since the war and more is to come, all financed, ultimately, by the plantation owners in Hawaii.

The capacity of the C and H refinery has never, in recent years, been adequate to process the whole Hawaiian crop. In addition, so much of the refinery capacity as could not be sold in the 11 Western states has had to move to inland markets at substantial penalties in the absorption of railroad freight. The excess Hawaiian production has historically been sold to refiners along the Atlantic seaboard. In 1956, C and H purchased an interest in the Imperial Sugar Company outside Galveston. It then completed an agreement with that company which will provide a future "home" for most of our product in excess of C and H capacity. However, increasing beet production will inevitably result in even more intense competition for sugar produced at the Crockett refinery.

PATIENT COMPROMISE

Fortunately, competitive considerations have been laid aside by the elements of the domestic sugar industry since the war insofar as their position on legislation is concerned. Beginning in 1946, and on every occasion since when amendment or extension of the Sugar Act has been under consideration in Congress, most elements of the industry have joined with the agencies of the government concerned to develop proposals that have won approval. Without this philosophy of patient compromise by all parties the legislative picture could become a shambles.

The 10-year period has, in fact, seen improvement in the Sugar Act. There has been clarification of definitions and, most important, recognition of the right of domestic growers to participate in the increased consumption of the U. S. market as a result of population growth. It is to be hoped that as inflation continues in the face of a general softening of agricultural prices, administration of the Act will also reflect adequate recognition of the industry's growing cost problems.

FINANCIAL OUTLOOK

While the price of sugar has remained relatively constant in the last 10 years, our basic wage rates have increased 59 per cent, our transportation costs 68 per cent and the wholesale commodity index reflecting the costs of the things we buy, 22 per cent. Two factors—increased yields attributable to our scientific research and mechanization which has permitted us to hold our total labor costs relatively stable—have enabled us to remain marginally profitable.

Capital expenditures in the industry following 1946 have totaled $114,000,000. While some of this money went into rehabilitation and replacement of war-worn facilities, the great bulk of it went into mechanization. In addition, C and H has spent $17,000,000, provided or obligated by the plantations, in capital improvements for the period. That the industry was able to obtain these sums through borrowings and from accumulated earnings without resort to equity financing is significant. Significant, first, because it reflects a tradition of lifting ourselves by our own bootstraps, but significant also in that returns have been so low that, except for a few companies with a history of more favorable earnings, equity financing would have been hard to obtain had we sought it.

HIGHLIGHTS OF 1957

The industry's output of sugar for 1957, estimated at 1,087,000 tons, is expected to be below that of 1956. The figure for 1956 was 1,099,543 tons and 1,140,112 in 1955, when an all-time high was recorded. Reasons for the drop in production included lower cane yields because of colder weather during the two-year growing period of the crop and dry conditions early this year which permitted unusually rapid harvesting and caused younger cane to be taken off. Although 1957 production was not a record, this was the industry's sixth consecutive crop of more than one million tons.

Returns from C and H to the plantations are estimated to be $120.37 per ton for raw sugar and $17.50 per ton for molasses. The sugar returns are somewhat better than last year's $118.40 per ton, but the molasses returns are considerably lower than the $27 per ton for 1956. At these figures, and estimated conditional compliance payments of $10 million, the sugar industry will have brought into the Islands' economy approximately $147 million, slightly less than the amount last year.

The industry's programs aimed at developing future leaders continued to make steady progress this past year. In its assistants-in-training program, the Experiment Station "graduated" four advanced students into plantation positions. The present class is made up of 11 college graduates. In its short-term courses for those already in responsible plantation positions, the station provided training for 25 men.

The industry's program of providing engineering scholarships for Island youths went into its second year. In addition to the $15,000 worth of scholarships in effect from last year, the HSPA granted scholarships worth $13,000 to four young local men, bringing the total number studying currently under the program to 10. All are attending mainland colleges.

HEAVY TOLL

This year of 1957 has taken a heavy toll of persons who have devoted their lives to building up Hawaii's sugar industry. Among those lost to the HSPA during the year were:

Robert Fricke, a veteran of more than a half century in the sugar industry whose jobs ranged from field boy, lumber carrier and mule driver to manager—of Waianae Plantation;

Gustav E. Schaefer, retired president of F. A. Schaefer & Co. and former member of the HSPA executive committee;

Dr. Harold L. Lyon, director emeritus of the HSPA Experiment Station and a major figure in Hawaiian sugar research, and a leader in the program of reforestation of Hawaii's watersheds;

Ernest H. Wodehouse, one of the Territory's outstanding financiers and business leaders, twice president of the HSPA. He was a long-time managing director of Theo. H. Davies & Co.;

Sherwood M. Lowrey, retired treasurer and director of American Factors, whose activities ranged from participation in the Hawaiian revolution to leadership in modern business and finance.;

Jared G. Smith, botanist, grass expert, tobacco planter, author, poet and veteran reporter of the Honolulu Advertiser. Founder of the Federal Experiment Station in the Islands, he was a lifelong friend of the sugar industry.

It would take pages to list the contributions these gentlemen made to Hawaii's largest industry and to the economy and civic development of the Territory as a whole.

THE FUTURE

There is always the temptation, if not the necessity, at a time like this to venture a word on the future. Some aspects seem relatively clear.

Inflation is likely to continue, influenced in large part by rising living standards, continuing demand for consumer goods and services and higher wages to pay for them. Population growth and new industrial development will make further inroads on lands now in sugar production. This could increase unit costs if the diversion of sugar lands to other uses is substantial.

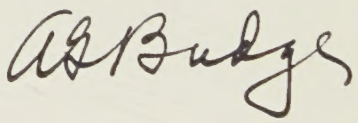
No one can forecast what further savings may be possible through improvements in methods and machines. It would appear, however, that achievements in the immediate future will not result in changes as drastic and dramatic as those recorded in the 10-year period immediately past. This suggests that investments for purposes of mechanization are tending to level off and financial requirements will not be proportionately as large as they have been recently.

All indications point to continuation of intense competition for sugar sales in Hawaii's market area. At the same time there seems to be no basis for assuming that government administration of the sugar price will be any more responsive to our rising costs than it has been in the past. We can not look to the government for relief from the cost-price squeeze.

NEED FOR UNDERSTANDING

What, then, in view of all these problems can we do to keep our sugar industry successfully in business? Locally, there appears to be opportunity for further technological accomplishment. Higher yielding cane varieties must be—and probably will be—developed. Methods must be devised to reduce cane juice losses that now result from mechanical harvesting. Careful and critical analysis of our methods and procedures will probably reveal further opportunities for savings. Our by-product research program has already uncovered some encouraging possibilities for future use of bagasse. This research deserves our continuing interest and support at both the local and national levels.

But it takes time to explore and develop these possibilities and to convert the study and research into productive business activity. We also need a favorable business climate. We will be able to move more quickly and effectively toward the solution of our problems if we have a constructive interest and understanding on the part of our employees, their union, legislators and the public at large. To obtain such understanding seems to be the primary challenge to the industry in the immediate future.



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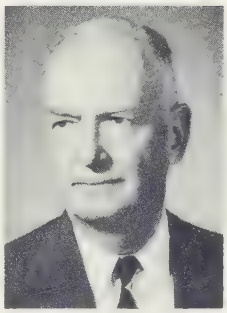
G. T. DAVIES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PEPEEKEO SUGAR COMPANY	Ednie, A. D.	Pepeekeo, Hawaii
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